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N.J.A.C. 11:4-28.7(a) All plans involved are Indemnity (including out-of-network portion of HMO POS or SCA plan without a network).

Assumptions: Indemnity Plan: 80/20 % coinsurance; primary deductible \$250; secondary deductible \$100

P = Primary S = Secondary

Plan Type*		(W)	(X)	(Y)	(Z)	(AA)
Billed Charges		1,200	1,200	1,200	1,200	1,200
P						
R	UCR (1)	1,000	1,000	1,000	1,000	1,000
i	Deductible	250	Previously Satisfied	250	Previously Satisfied	Previously Satisfied
M	Coinsurance	150	200	150	200	Previously Satisfied
A	Primary Pays	600	800	600	800	1,000
R						
Y						
S						
E	UCR (1)	900	900	900	900	900
C	Deductible	100	100	Previously Satisfied	Previously Satisfied	Previously Satisfied
O	Coinsurance	160	160	180	180	Previously Satisfied
N	Secondary Liability, if Primary	640	640	720	720	900
D	Secondary Pays (2)	600	400	600	400	200
A	Secondary Saves	40	240	120	320	700
R	Member/Insured Out of Pocket	0	0	0	0	0
Y	Provider Collects	1,200	1,200	1,200	1,200	1,200

* See Below for Column description:

- (W) Both P&S: Indemnity
- (X) Both P&S: Indemnity (Primary Deductible satisfied)
- (Y) Both P&S: Indemnity (Secondary Deductible satisfied)
- (Z) Both P&S: both deducts satisfied
- (AA) Both P&S: both deducts & Out of Pocket Satisfied
- (1) Indemnity (includes out-of-network portion of HMO POS or SCA plan), paying on UCR basis
- (2) Pays provider; or pays insured member if he/she has paid provider in form of copayment, coinsurance or deductible

inoregs/COBchart

New Rule, R.2002 d.106, effective April 1, 2002 (operative January 1, 2003).
See: 33 N.J.R. 2578(a), 34 N.J.R. 1440(a).

SUBCHAPTER 29. (RESERVED)

SUBCHAPTER 30. ACCELERATED DEATH BENEFITS

Law Reviews and Journal Commentaries

Innovation and Controversy: viatical Arrangements and Accelerated Death Benefits. Wesley S. Caldwell, III, William F. Magna, David P. Kalm, 172 N.J.L.J. 39 (1995).

11:4-30.1 Purpose

The purpose of these rules is to regulate the content, filing and disclosure of information to individual policy owners and group certificate holders with respect to accelerated death benefit provisions of life insurance policies.

11:4-30.2 Application and scope

These rules shall apply to all accelerated death benefit provisions of individual and group life insurance policies delivered or issued for delivery in this State on and after September 18, 1995.

11:4-30.3 Definitions

The following terms, when used in this subchapter, shall have the following meanings:

“Accelerated death benefits” means the advance settlement of death proceeds payable under a life insurance contract:

1. To the policy owner or certificate holder, during the lifetime of the insured, when the insured is reasonably expected to have a drastically limited life span;
2. Which reduce the death benefit otherwise payable under the contract through a total or partial surrender of the contract or imposition of a lien upon the death benefits; and
3. Which are payable upon the occurrence of a single qualifying event resulting in the payment of a benefit amount fixed at the time of acceleration.

“Commissioner” means the Commissioner of the Department of Banking and Insurance, State of New Jersey.

“Department” means the Department of Banking and Insurance.

“Qualifying event” means a medical condition which is reasonably expected to result in a drastically limited life span for the insured, such limitation to be specified in the contract; for example, a remaining life span of 24 months. At the option of the insurer, the contract may also define qualifying events to include:

1. Those medical conditions which result in a limited life span and which are reasonably expected to require continuous confinement in an eligible institution, as defined in the contract, until the death of the insured;

2. A chronic illness as defined in 26 U.S.C. § 7702B(c)(2)(A); and

3. Any other qualifying events which the Commissioner may approve.

Amended by R.2000 d.170, effective April 17, 2000.

See: 32 N.J.R. 167(a), 32 N.J.R. 1396(a).

Inserted “Department”.

Amended by R.2003 d.234, effective June 16, 2003.

See: 34 N.J.R. 3193(a), 35 N.J.R. 2648(a).

Rewrote “Qualifying event”.

11:4-30.4 Permitted forms of accelerated death benefit provisions

Accelerated death benefit provisions will be permitted in the form of either a total or partial surrender of the policy or a lien on the death benefits.

11:4-30.5 Partial surrender

(a) Under the partial surrender approach, the insured in the case of group insurance or the policy owner in the case of individual insurance is permitted to accelerate the payment of a portion of the death benefit, which portion is specified in the contract, through a partial surrender of the contract. The cash value is reduced by the same percentage as the death benefit. The premium in individual life policies is reduced to the premium that would apply had the contract been issued at the reduced amount of death benefit. The premium in group life policies is reduced to reflect the remaining amount of insurance in effect.

(b) The following requirements apply to accelerated death benefit options which utilize the partial surrender approach.

1. The amount of the accelerated death benefit may be applied to repayment of an outstanding policy loan but only up to the amount of the outstanding policy loan multiplied by the percentage of the death benefits which have been accelerated. For example, where a policy owner or certificate holder has a death benefit of \$100,000 with an outstanding policy loan of \$20,000 and seeks to accelerate the payment of \$25,000 or 25 percent of the death benefit, the \$25,000 may be applied to repay up to 25 percent of the outstanding policy loan of \$20,000. Thus, of the \$25,000 accelerated payment, \$5,000 may be applied to repayment of the policy loan and \$20,000 may be paid to the policy owner or certificate holder.

2. Under the partial surrender method, the premium is reduced to the premium that would apply had the contract been issued at the reduced amount and may be further reduced according to some defined formula, or become paid-up.

3. The insurer may pay the policy owner or certificate holder a present value of the death benefit which is being accelerated. The present value calculation shall be based on any actuarial discount appropriate to the policy design. The interest rate or interest rate methodology used in the calculation shall be based on sound actuarial principles and disclosed in the contract and actuarial memorandum. The maximum interest rate shall not exceed the greater of:

- i. The current yield on 90-day treasury bills; or
- ii. The current maximum statutory adjustable policy loan interest rate.

11:4-30.6 Lien

(a) Under the lien approach, the payment to the policy owner or certificate holder of the accelerated death benefit is treated as a lien on the death benefits of the contract. Expense charges may be added to the lien. Due and unpaid premiums may be included in the lien after the automatic premium loan, if available, is exercised. Access to cash value may be restricted to the excess of the cash value over the sum of the lien and any other outstanding policy loans.

(b) The following requirements apply to accelerated death benefit provisions which utilize the lien approach.

1. The lien may only be made against the death benefit, not against the cash value.

2. Interest bearing liens are permitted. The interest rate accrued on the portion of the lien which is equal to the cash value of the contract at the time of acceleration shall be no more than the policy loan interest rate stated in the contract. For the amount of the lien in excess of such cash value, the interest rate or interest rate methodology as a whole must be based on sound actuarial principles and disclosed in the contract and actuarial memorandum. The maximum interest rate for the lien in excess of cash value shall not exceed the greater of:

- i. The current yield on 90-day treasury bills; or
- ii. The current maximum statutory adjustable policy loan interest rate.

3. The amount of the lien and any interest thereon may not exceed the net amount at risk, that is, death benefit less cash value. Interest shall not be charged on the lien once the lien equals the net amount at risk.

11:4-30.7 Payment options

(a) Contract payment or settlement options shall include the option to receive the accelerated death benefit in lump sum and may include options to receive the benefit in periodic payments without life contingencies.

1. In no event shall the amount payable as a lump sum be less than the acceleration percentage multiplied by the current cash value less outstanding policy loans. The current cash value shall include any termination dividend payable on the surrender of the policy.

2. Periodic payments with life contingencies are not permitted.

3. All settlement options shall specify what occurs if the insured dies before all payments of the accelerated death benefit are made.

4. The interest rate used to calculate any present value of the settlement option shall be that assumed in calculating the original payments.

(b) If the insured dies after the policy owner or certificate holder elects to receive accelerated death benefits but before any such benefits are received, the election shall be cancelled and the death benefit paid pursuant to the policy.

Amended by R.2000 d.170, effective April 17, 2000.

See: 32 N.J.R. 167(a), 32 N.J.R. 1396(a).

In (a), substituted "and may include options to receive the benefit" for "or" in the introductory paragraph.

11:4-30.8 Terms of accelerated death benefit contract provisions

(a) The following are required terms:

1. Accelerated death benefit provisions shall specify the procedure to be followed to accelerate the payment of death benefits. Insurers are subject to N.J.S.A. 17B:25-11 with respect to any delay in processing requests to accelerate the payment of death benefits.

2. If the policy lapses due to nonpayment of premium, the policy owner or insured shall have the right to reinstate the option on the same, or more favorable, terms as contained in the individual policy or group certificate.

3. Accelerated death benefit provisions shall provide that when the conditions for payment are met, including the occurrence of a qualifying event, the payment of all or a portion of the death benefit will be accelerated. The provision may limit the percentage or dollar amount of the benefits whose payment may be accelerated.

4. Accelerated death benefit provisions shall describe the effect of exercise of the option to accelerate payment on premiums, cash values, loan values and coverage on another insured, where applicable.

5. Accelerated death benefit provisions shall be permitted in group life insurance contracts and certificates only if the insured has all rights of ownership concerning election and receipt of the accelerated death benefit.

(b) The following are permitted terms:

1. Accelerated death benefit provisions may provide for the examination of the insured at the insurer's expense. These provisions may also specify that in the event of a denial of a claim, a referee will be appointed or an additional medical opinion will be obtained.

2. The insurer may include in the accelerated death benefit provision a waiver of premium for the underlying policy upon the occurrence of a qualifying event regardless of whether a waiver of premium provision is contained in the underlying policy.

3. The insurer may deduct an expense charge in determining the accelerated death benefit provided that such expense charge is disclosed in the contract and actuarial memorandum.

(c) The following are prohibited terms:

1. Accelerated death benefit provisions shall not contain exclusions or restrictions as to coverage which are not also exclusions or restrictions in the base policy.

2. Accelerated death benefit provisions shall not require that the cause of the terminal condition first manifest itself or be diagnosed after issuance of the individual policy or rider or the group certificate.

3. Accelerated death benefit provisions shall not contain a waiting period requirement (except in the case of presumed, as opposed to diagnosed, terminal illness). A requirement that the individual policy or rider or the

group certificate be in force past the incontestable period is a prohibited waiting period requirement.

4. Accelerated death benefit provisions shall not contain any restrictions on the use of the benefit.

5. The insurer shall not require a premium charge or cost of insurance charge for the accelerated benefit.

6. Accelerated death benefit provisions shall not require that upon exercise of the option to accelerate payment of a portion of the death benefits less than the full amount of such benefits the insured forfeits the residual coverage.

7. The insurer shall not include an aggregate limit provision which caps the accelerated death benefits payable for all contracts issued by the insurer and its subsidiaries and affiliates.

Amended by R.2000 d.170, effective April 17, 2000.

See: 32 N.J.R. 167(a), 32 N.J.R. 1396(a).

In (a), deleted a former 2, and recodified former 3 through 6 as 2 through 5.

11:4-30.9 Exercise of the option to accelerate the payment of death benefits

(a) When a portion of the coverage remains after payment of the accelerated death benefit, the following requirements apply:

1. Where the accelerated death benefit is paid under the partial surrender method, the individual policy or group certificate shall be modified by an endorsement which includes a statement of cash values, policy loans, premiums and death benefits following acceleration.

2. The dividends or non-guaranteed elements credited thereon shall not discriminate between policies whose death benefits have been reduced through acceleration and policies originally issued in the amount of the reduced death benefits.

3. The accidental death benefit provision, if any, in the policy or rider shall not be affected by the payment of the accelerated death benefit.

(b) When the full amount of the death benefit is accelerated, the individual policy or life insurance evidenced by the group certificate shall terminate upon the election of acceleration of the benefit.

(c) The option to accelerate shall be incontestable on the same, or a more favorable, basis as the individual policy or rider or the group certificate.

11:4-30.10 Form submission requirements

(a) Pursuant to N.J.S.A. 17B:25-18 and 17B:27-25, individual and group policies, riders and endorsements and group certificates with accelerated death benefit provisions must be filed by the Commissioner before they are delivered or issued for delivery in this State.

(b) The following requirements apply to the submission of accelerated death benefit forms to the Department.

1. The material submitted by the insurer to the Department shall disclose the types of forms with which this benefit will be offered, any underwriting restrictions involving face amount or age, and whether the form is intended for use with new issues and/or in force business.

2. The material submitted by the insurer to the Department shall include a specimen issue of the illustrations provided to the policy owner or certificate holder prior to or concurrent with the election of the accelerated death benefit option and an explanation of how and when the illustration will be provided. See N.J.A.C. 11:4-30.11.

3. Where a form links interest rates or charges to indices such as the 90-day Treasury bill, the form shall provide that if the named index is discontinued, the insurer will use an appropriate substitute index subject to the approval of the Department.

Amended by R.2000 d.170, effective April 17, 2000.

See: 32 N.J.R. 167(a), 32 N.J.R. 1396(a).

In (b), deleted a former 3, and recodified former 4 as 3.

11:4-30.11 Illustrations

(a) Prior to or concurrent with the election of the option to accelerate the payment of death benefits, the policy owner or certificate holder shall be given an illustration demonstrating the effect of the acceleration of the payment of death benefits on the cash value, death benefit, premium and policy loans (including policy liens) of the particular contract involved. The illustration shall display any premium or group contribution necessary to continue coverage following the acceleration. An illustration with representative examples intended for use on a general basis is not satisfactory.

(b) The illustration shall display all expense and interest charges associated with accelerating the death benefit.

(c) Illustrations for use with liens shall contain a statement that future due and unpaid premiums may be included in the lien.

11:4-30.12 Discrimination

(a) Insurers shall not discriminate among insureds on the basis of qualifying events covered under the policy.

(b) Conditions for payment of accelerated death benefits may not be based on type of disease or the fact of institutionalization. However, it is not discriminatory to presume that a person who has been confined to a nursing home for six months and is expected to be confined until death is terminally ill.

11:4-30.13 Severability

If any provision of this subchapter, or its application to any person or circumstances, is held invalid, the remainder of this subchapter and its application to other persons or circumstances shall not be affected.

11:4-30.14 (Reserved)

Repealed by R.2000 d.170, effective April 17, 2000.

See: 32 N.J.R. 167(a), 32 N.J.R. 1396(a).

Section was "Effect on previously filed forms".

SUBCHAPTER 31. (RESERVED)

SUBCHAPTER 32. VALUATION OF LIFE INSURANCE POLICIES
11:4-32.1 Purpose and scope

(a) The purpose of this subchapter is to provide:

1. Tables of select mortality factors and rules for their use;
2. Rules concerning a minimum standard for the valuation of plans with non-level premiums or benefits; and
3. Rules concerning a minimum standard for the valuation of plans with secondary guarantees.

(b) The method for calculating basic reserves defined in this subchapter will constitute the Commissioners' Reserve Valuation Method for policies to which this subchapter is applicable.

(c) This subchapter shall apply to all life insurance policies, with or without nonforfeiture values, issued on or after January 1, 2000, subject to the following exceptions:

1. This subchapter shall not apply to any individual life insurance policy issued on or after January 1, 2000 if the policy is issued in accordance with and as a result of the exercise of a reentry provision contained in the original life insurance policy of the same or greater face amount, issued before January 1, 2000, that guarantees the premium rates of the new policy. This subchapter also shall not apply to subsequent policies issued as a result of the exercise of such a provision, or a derivation of the provision, in the new policy.

2. This subchapter shall not apply to any universal life policy that meets all the following requirements:

- i. The secondary guarantee period, if any, is five years or less;
- ii. The specified premium for the secondary guarantee period is not less than the net level reserve

premium for the secondary guarantee period based on the 1980 CSO valuation tables as defined at N.J.A.C. 11:4-32.2 and the applicable valuation interest rate; and

- iii. The initial surrender charge is not less than 100 percent of the first year annualized specified premium for the secondary guarantee period.

3. This subchapter shall not apply to any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

4. This subchapter shall not apply to any variable universal life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

5. This subchapter shall not apply to a group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year.

6. For policies issued after December 31, 1995 and prior to the operative date of this subchapter, where the methods and assumptions described in this subchapter would produce lower reserves than were previously required, an insurer may, with the approval of the Commissioner, adopt lower reserves, but in no case lower than the reserves calculated in accordance with the methods and assumptions described in this subchapter. The Commissioner shall grant approval when the insurer has provided documentation satisfactory to the Commissioner that the reserves established by the insurer make adequate provision for obligations to policyholders. Such documentation shall be accompanied by an actuarial certification as to the adequacy of the methods and assumptions proposed.

(d) Calculation of the minimum valuation standard for policies with guaranteed non-level gross premiums or guaranteed non-level benefits (other than universal life policies), or both, shall be in accordance with the provisions of N.J.A.C. 11:4-32.4.

(e) Calculation of the minimum valuation standard for flexible premium and fixed premium universal life insurance policies, that contain provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period, shall be in accordance with the provisions of N.J.A.C. 11:4-32.5.

Administrative correction.

See: 32 N.J.R. 477(a).

11:4-32.2 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

“Appointed actuary” means any individual who is appointed or retained in accordance with the requirements set forth at N.J.A.C. 11:1-21A.3(f) to provide the actuarial opinion and memorandum as required by N.J.A.C. 11:4-32.3(b)4i.

“Basic reserves” means reserves calculated in accordance with N.J.S.A. 17B:19-8b.

“Commissioner” means the Commissioner of the Department of Banking and Insurance.

“Contract segmentation method” means the method of dividing the period from issue to mandatory expiration of a policy into successive segments, with the length of each segment being defined as the period from the end of the prior segment (from policy inception, for the first segment) to the end of the latest policy year as determined below. All calculations are made using the 1980 CSO valuation tables as defined in this section, incorporated herein by reference, (or any other valuation mortality table adopted by the NAIC after

January 1, 2000 and promulgated by the Commissioner for this purpose), and, if elected, the optional minimum mortality standard for deficiency reserves stipulated at N.J.A.C. 11:4-32.3(b).

The length of a particular contract segment shall be set equal to the minimum of the value t for which G_t is greater than R_t (if G_t never exceeds R_t the segment length is deemed to be the number of years from the beginning of the segment to the mandatory expiration date of the policy), where G_t and R_t are defined as follows:

$$G_t = \frac{GP_{x+k+t}}{GP_{x+k+t-1}}$$

where:

x = original issue age;

k = the number of years from the date of issue to the beginning of the segment;